Statement Of

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National Pork Producers Council

Before the
House Agriculture Committee

On

Status of World Trade Organization
Negotiations on Agriculture

November 2, 2005

Mr. Chairman and Members of the Committee:

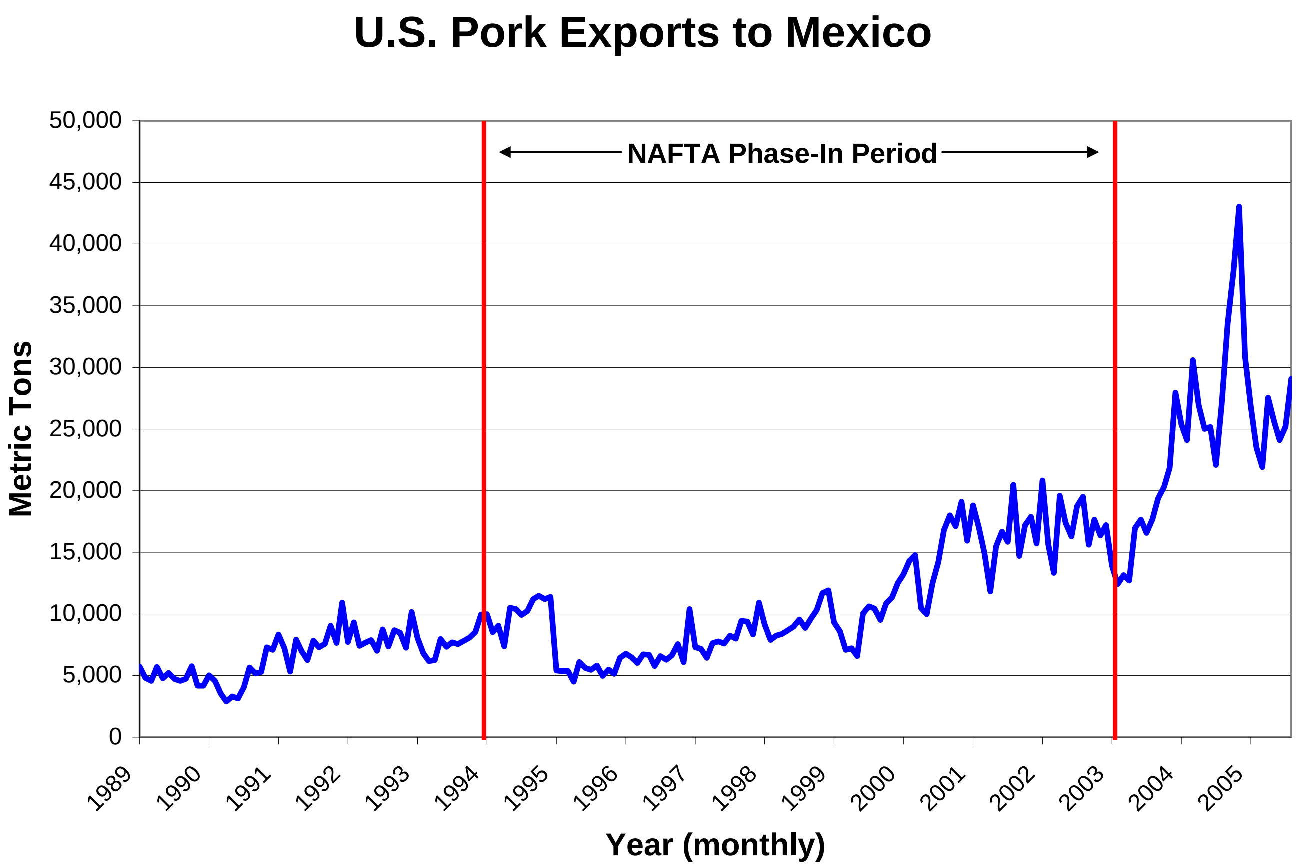
I am Jon Caspers, Past President of the National Pork Producers Council (NPPC) and a pork producer from Swaledale, Iowa. I operate a nursery-to-finish operation, marketing 18,000 hogs per year.

Mr. Chairman, I greatly appreciate everything that you and other members of this Committee have done to advance U.S. agricultural exports. I strongly believe that the future of the U.S. pork industry, and the future livelihood of my family's operation, depend in large part on further trade agreements and continued trade expansion.

The National Pork Producers Council is a national association representing pork producers in 44 affiliated states that annually generate approximately $11 billion in farm gate sales. The U.S. pork industry supports an estimated 565,761 domestic jobs and generates more than $83.6 billion annually in total economic activity. With 11,492,000 litters being fed out annually, U.S. pork producers consume 1.093 billion bushels of corn valued at $2.404 billion. Feed supplements and additives represent another $2.393 billion of purchased inputs from U.S. suppliers which help support U.S. soybean prices, the U.S. soybean processing industry, local elevators and transportation services based in rural areas.

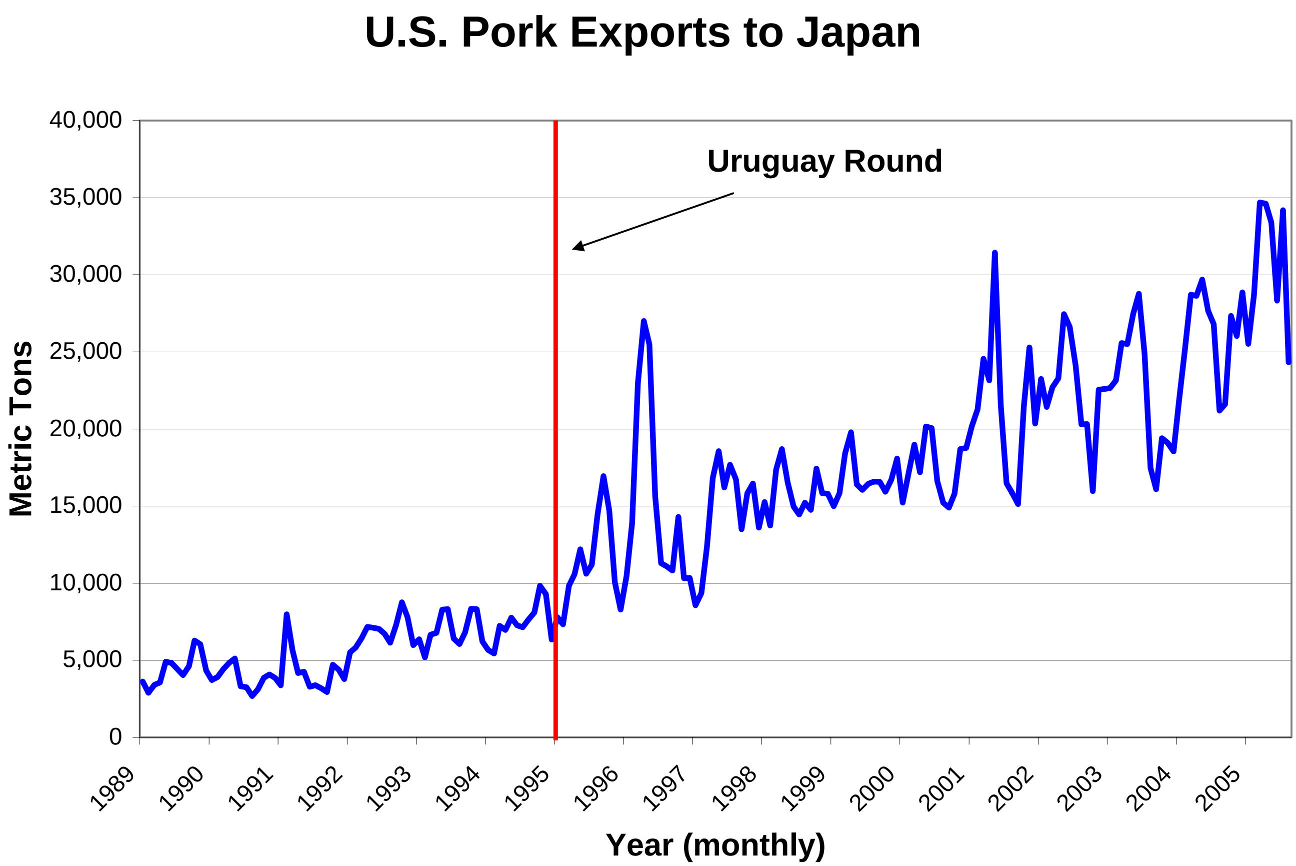
Pork is the world's meat of choice; it represents 44 percent of daily meat protein intake in the world. (Beef and poultry each represent less than 30 percent of daily global meat protein intake.) As the world moves from grain based diets to meat based diets, U.S. exports of safe, high-quality and affordable pork will increase because economic and environmental factors dictate that pork be produced largely in grain surplus areas and, for the most part, imported in grain deficit areas. However, the extent of the increase in global pork trade – and the lower consumer prices in importing nations and the higher quality products associated with such trade - will depend substantially on continued agricultural trade liberalization.

In 2004, U.S. pork exports set another record; exports totaled 1,023,413 metric tons (MT) valued at $2.2 billion, an increase of 35 percent by volume and 41 percent by value over 2003 exports. 2005 is shaping up to be another record year. Much of the growth in U.S. pork exports is directly attributable to new and expanded market access. U.S. exports of pork and pork products have increased by more than 337 percent in volume terms and more than 293 percent in value terms since the implementation of the NAFTA in 1994 and the Uruguay Round Agreement in 1995. The top 7 export markets in 2004 are all markets in which pork exports have soared because of recent trade agreements.



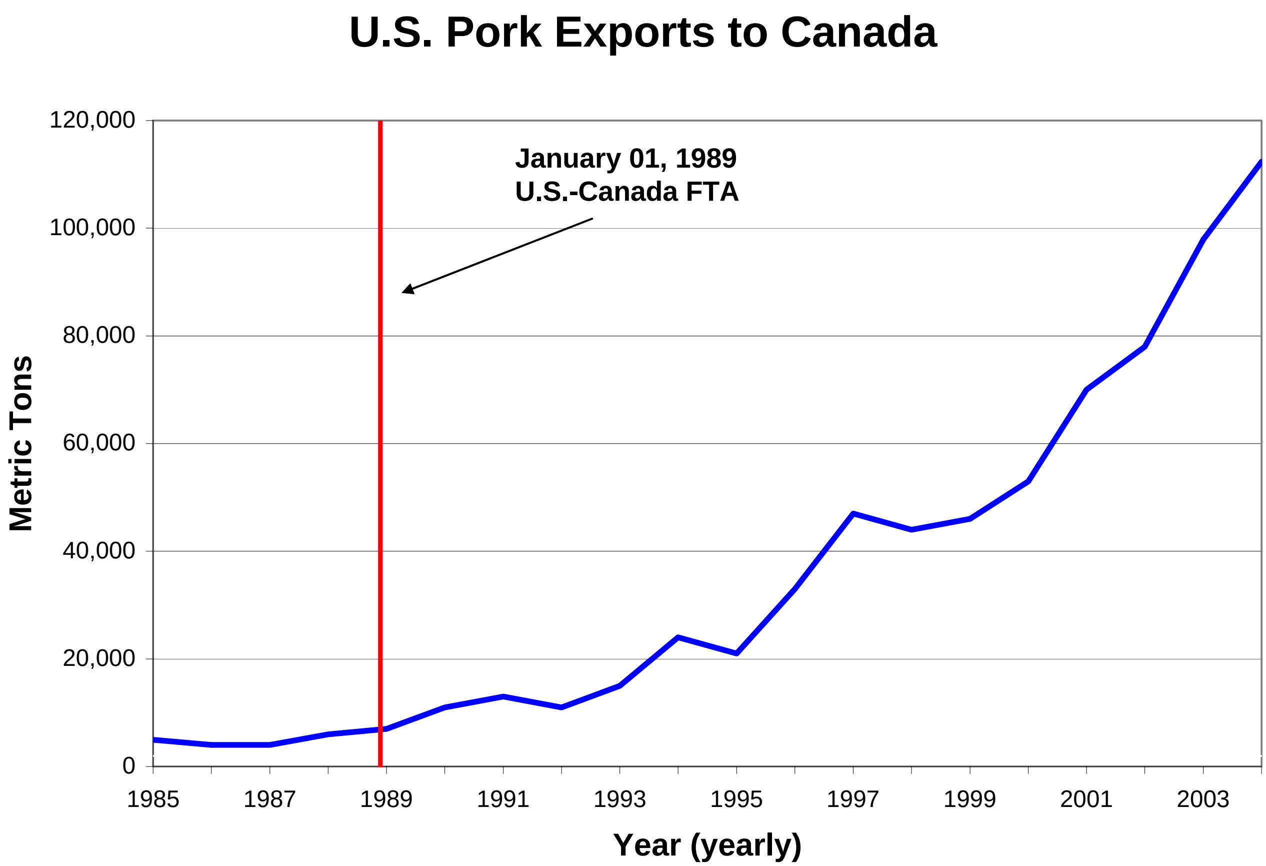
Mexico

In 2004 U.S. pork exports to Mexico totaled 361,587 metric tons valued at $566 million. Without the NAFTA, there is no way that U.S. exports of pork and pork products to Mexico could have reached such heights. Mexico is now the number one volume market for U.S. pork exports and the number two value market. U.S. pork exports have increased by 279% in volume terms and 406% in value terms since the implementation of the NAFTA growing from 1993 (the last year before the NAFTA was implemented), when exports to Mexico totaled 95,345 metric tons valued at $112 million.

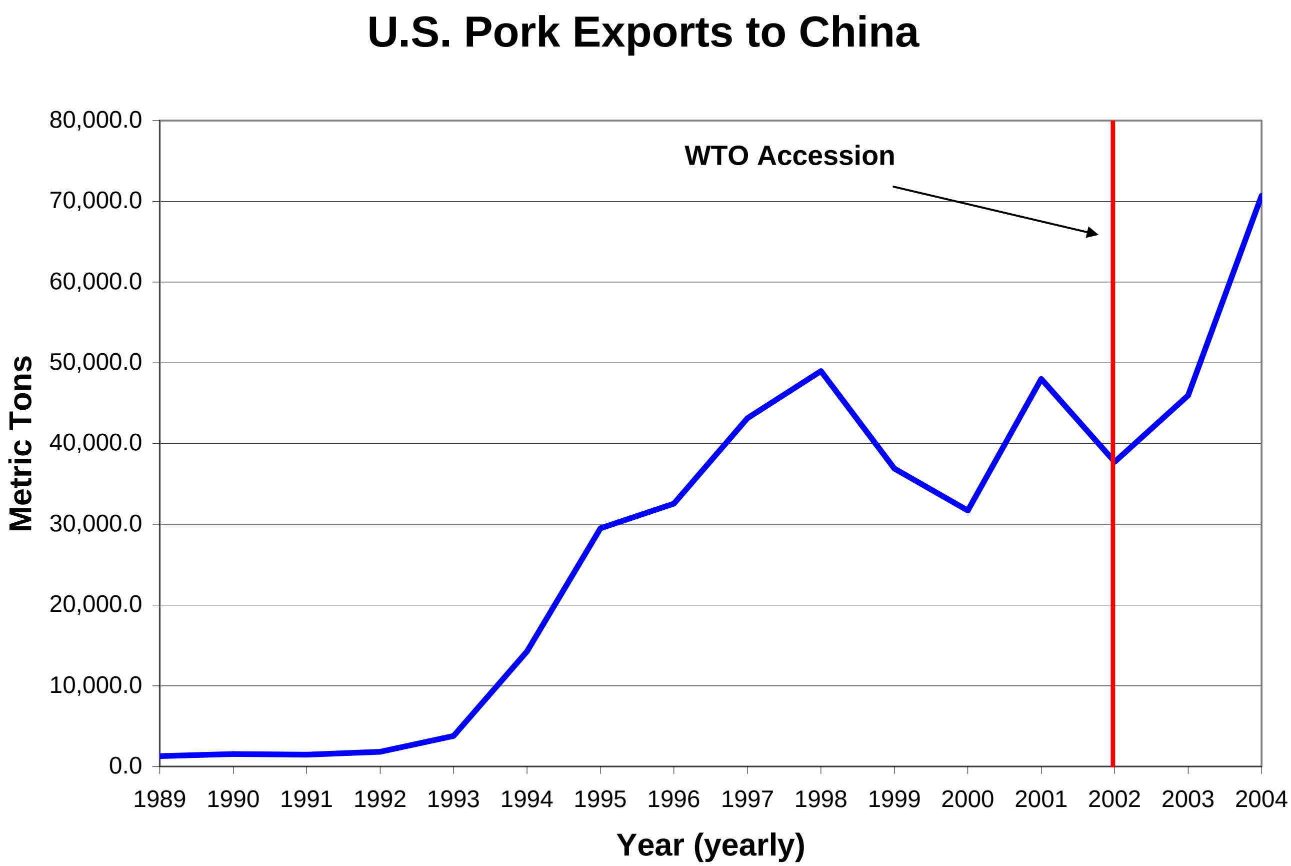


Japan

Thanks to a bilateral agreement with Japan on pork that became part of the Uruguay Round, U.S. pork exports to Japan have soared. In 2004, U.S. pork exports to Japan reached 313,574 metric tons valued at $979 million. Japan remains the top value foreign market for U.S. pork. U.S. pork exports to Japan have increased by 274% in volume terms and by 182% in value terms since the implementation of the Uruguay Round.

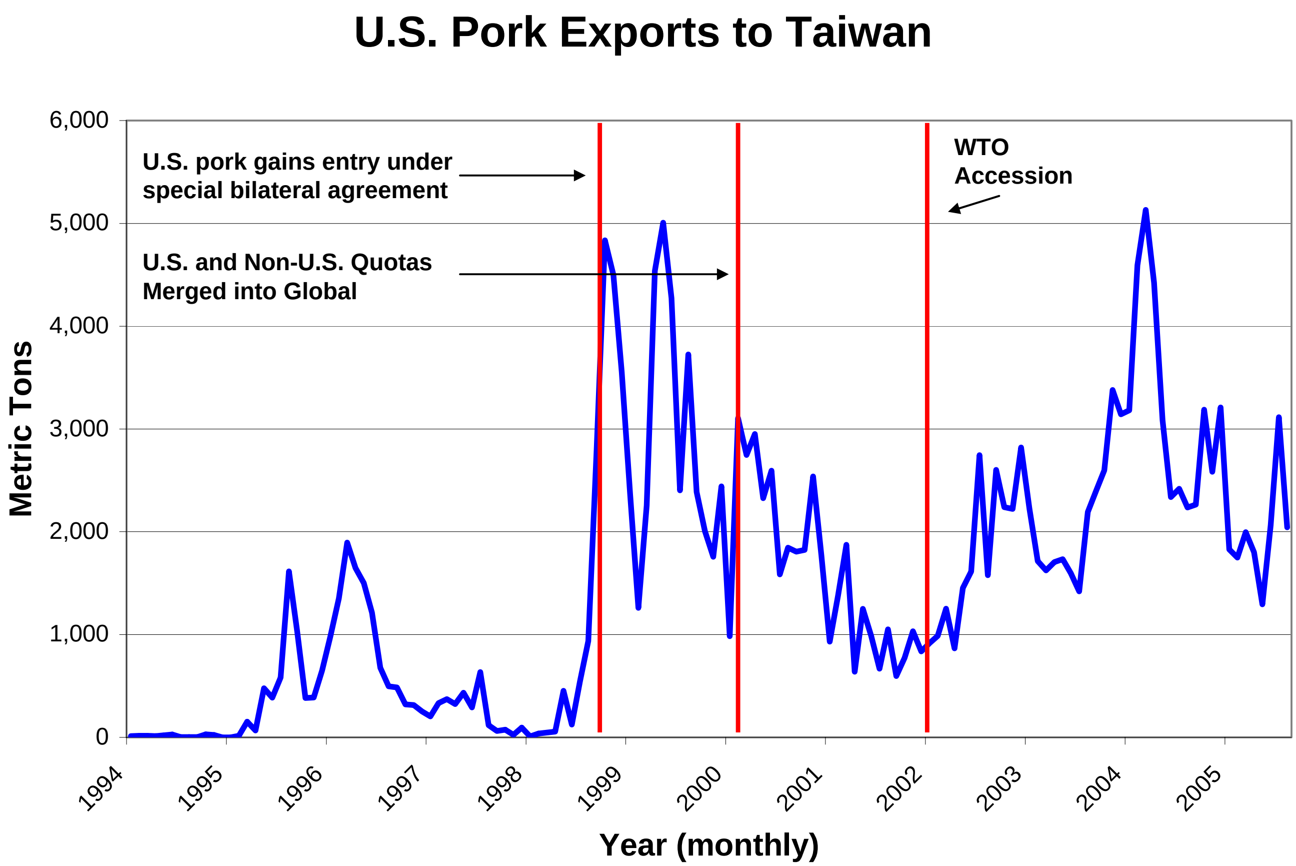


Canada
U.S. pork exports to Canada have increased by 1,773% in volume terms and by 2,429% in value terms since the implementation of the U.S. – Canada Free Trade Agreement. In 2004, U.S. pork exports to Canada increased to 112,360 metric tons valued at $301 million.

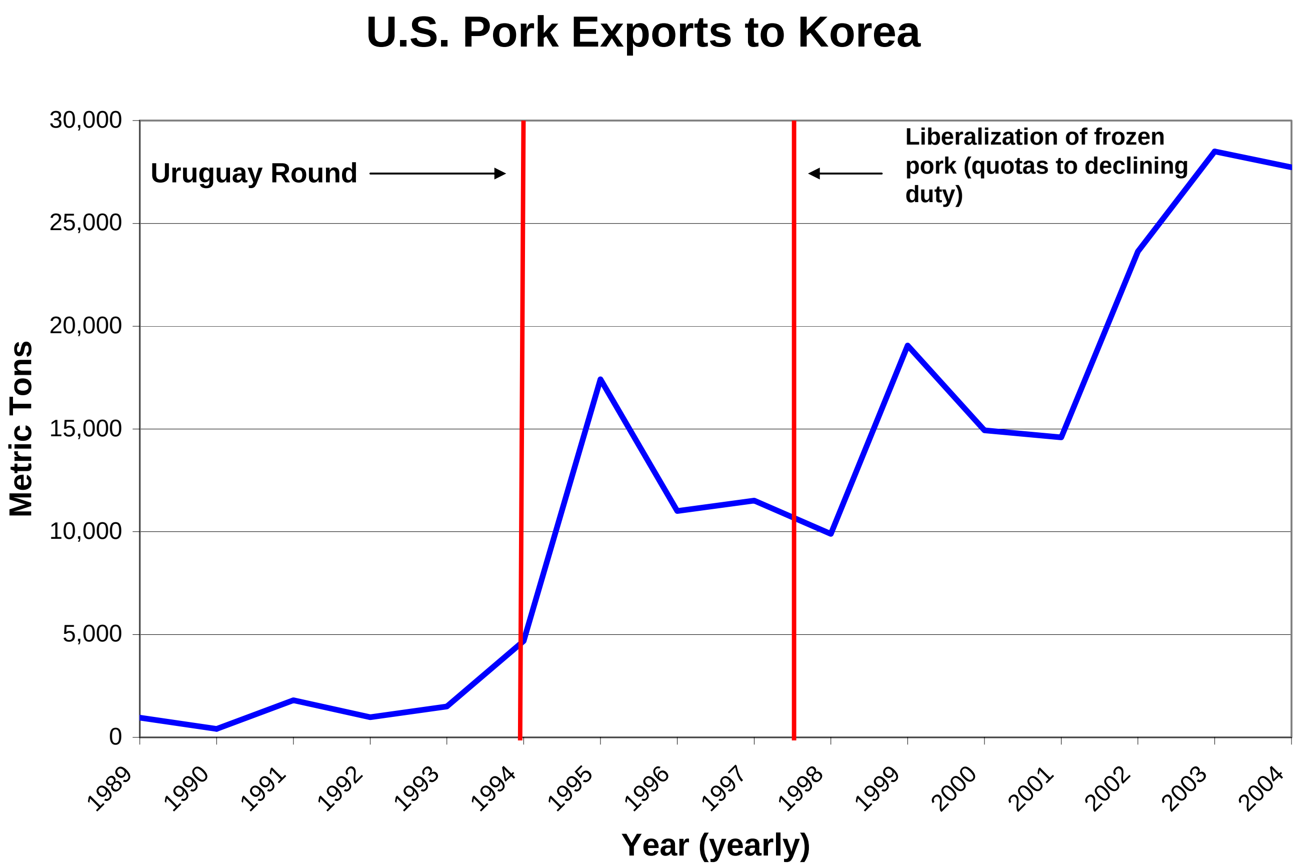


China

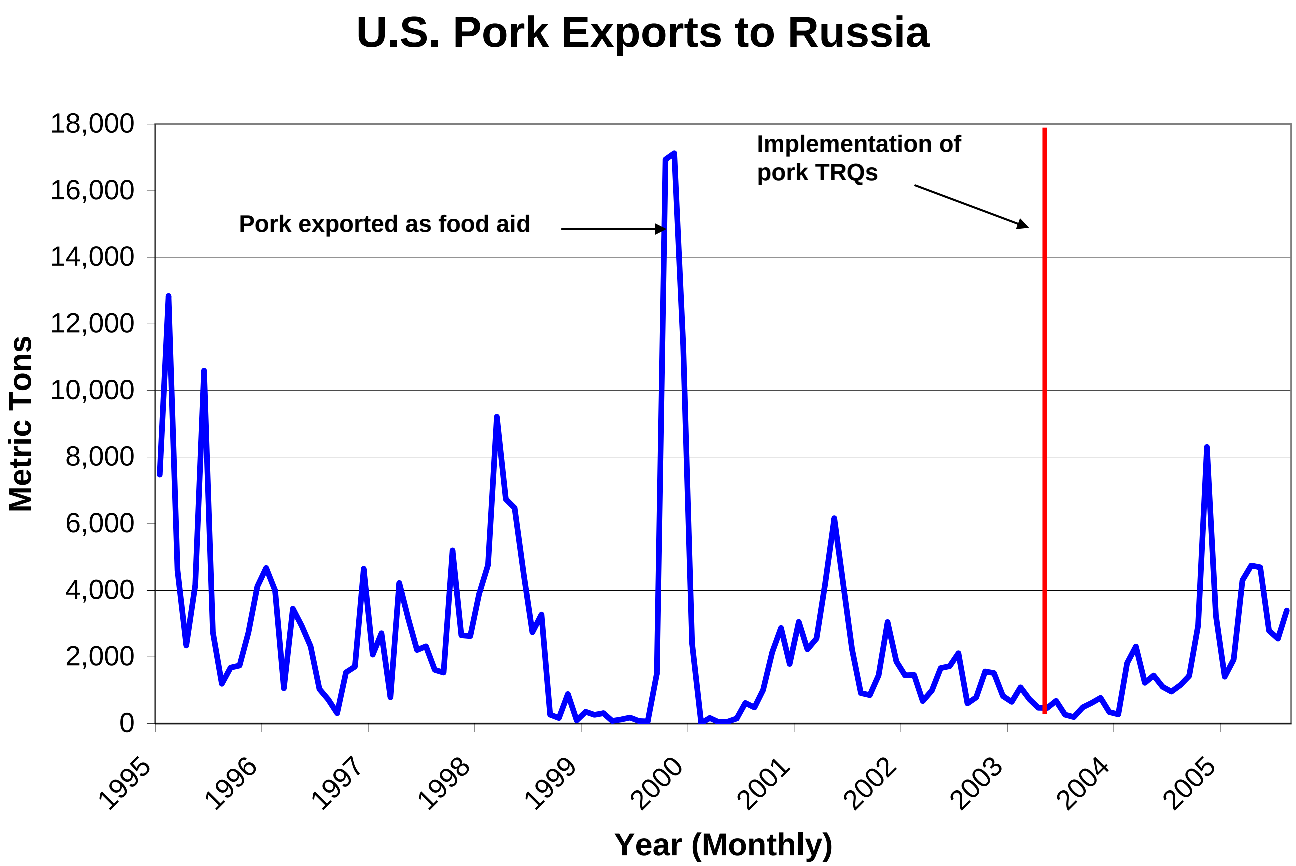
U.S. exports of pork and pork products to China increased 51% in value terms and 41% in volume terms in 2004 versus 2003, totaling $91 million and 79,701 metric tons. U.S. pork exports have exploded because of the increased access resulting from China's accession to the World Trade Organization. Since China implemented its WTO commitments on pork, U.S. pork exports have increased 38% in volume terms and 38% in value terms.



Taiwan
U.S. exports of pork and pork products to Taiwan increased to 38,806MT valued at $56 million. U.S. pork exports to Taiwan have grown sharply because of the increased access resulting from Taiwan's accession to the World Trade Organization. Since Taiwan implemented its WTO commitments on pork, U.S. pork exports have increased 207% in volume terms and 197% in value terms.

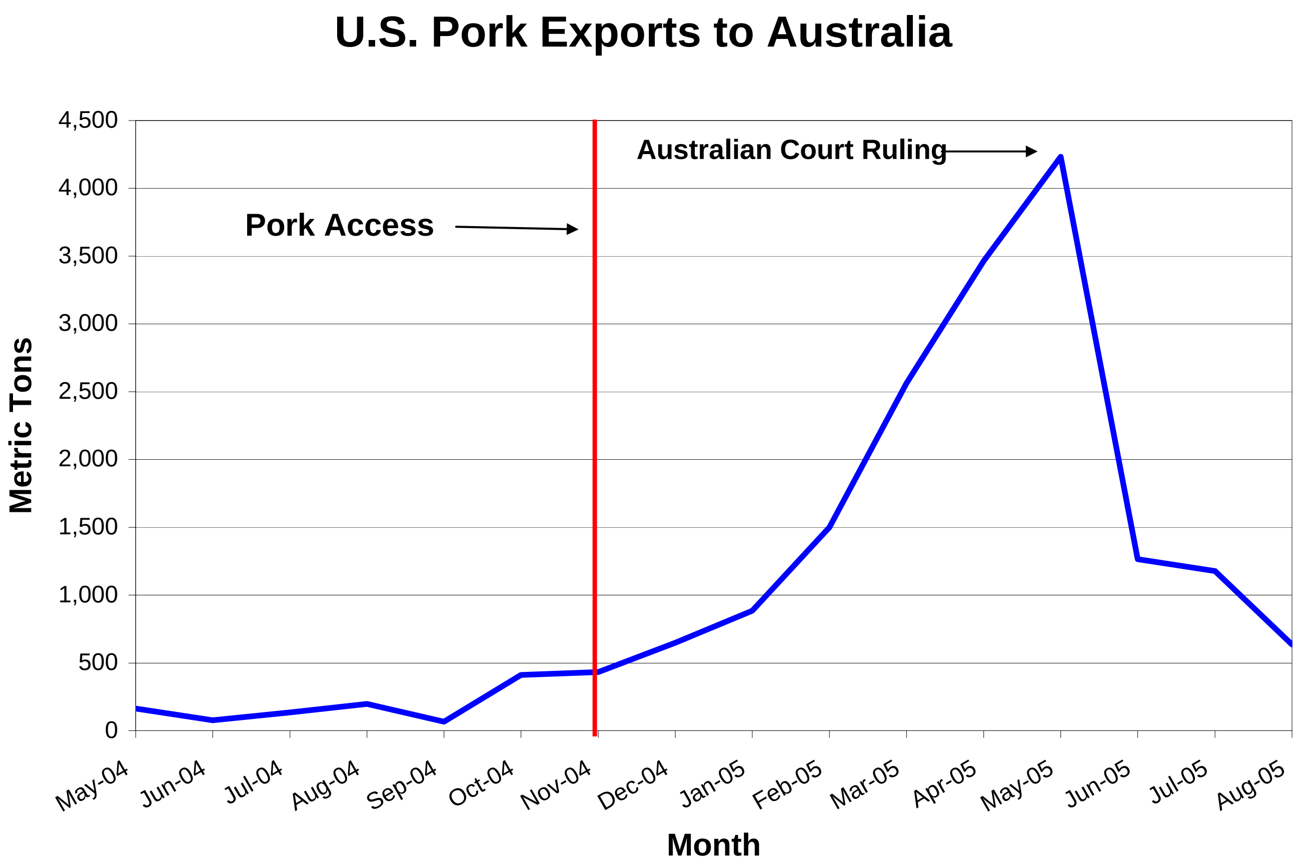


Republic of Korea
U.S. pork exports to Korea have increased as a result of concessions made by Korea in the Uruguay Round. In 2004 exports climbed to 27,876MT valued at $56 million, an increase of 724% by volume and 558% by value since implementation of the Uruguay Round.



Russia

U.S. exports of pork and pork products to Russia increased 450% in value terms and 270% in volume terms in 2004 versus 2003, totaling 27,152MT valued at $42 million. The increase in exports is due largely to the establishment of country specific pork quotas which were established by Russia as part of its preparation to join the World Trade Organization. The spike in U.S. pork export to Russia in the late 1990’s was due to pork shipped as food aid.



Australia
The U.S. pork industry did not gain access to Australia until recently, thanks to the U.S. – Australia FTA. U.S. pork exports to Australia have exploded in 2005 making Australia one of the top export destinations for U.S. pork. Pork exports to Australia on a value basis during the eight months of 2005 were just under $46 million. In late May, an Australian Court ruled against Biosecurity Australia's pork import risk assessment which allows processed U.S. pork or frozen unprocessed pork to be exported to Australia for further processing. Without this disruption in the Australian market, U.S. producers would have already surpassed the estimated $50 million in exports to Australia.

Impact of Pork Exports on Prices
The Center for Agriculture and Rural Development (CARD) at Iowa State University has calculated that in 2004, U.S. pork prices were $33.60 per hog higher than they would have been in the absence of exports. According to Dr. Glen Grimes of the University of Missouri, through the first 7 months of 2005, cash hog prices were about 15% higher than otherwise would have been the case if there had been no increase in exports in 2005 compared to 2004.

Impact of Pork Exports on Jobs
The USDA has reported that U.S. meat exports have generated 200,000 additional jobs and that this number has increased by 20,000 to 30,000 jobs per year as exports have grown.

Impact of Pork Exports on Economy
The U.S. Bureau of Economic Analysis (BEA) has calculated that for every $1 of income or output in the U.S. pork industry, an additional $3.113 is generated in the rest of the economy. The USDA has reported that the income multiplier from meat exports is 54% greater than the income multiplier from bulk grain exports.

Impact of Pork Exports on Feed Grain and Soybean Industries
Each hog that is marketed in the United States consumes 12.82 bushels of corn and 183 pounds of soybean meal. With an annual commercial slaughter of 100 million animals, this corresponds to 1,282 million bushels of corn and 9.15 million tons of soybean meal. At least 11% of this production is exported, and these exports account for approximately 141 million bushels of corn and 1 million tons of soybean meal.

The Importance of the WTO

International trade is vital to the future of American agriculture. As the world's largest exporter of agricultural products we have a critical interest in the development and maintenance of strong and effective rules for international trade. This is especially true for pork. U.S. producers were largely precluded from exporting significant volumes of pork to foreign markets before effective major trade agreements, in particular the WTO Uruguay Round Agreement. Prior to that time, a combination of foreign market trade barriers and highly subsidized competitors significantly limited U.S. pork exports.

No trade agreement under negotiation is more important than the Doha Round negotiations. Ninety-six percent of the world's population lives outside the United States. Agricultural tariffs of countries other than the U.S. average 62 percent. Import duties on pork in these countries are even higher, averaging 77 percent. A successful Doha Round will create very significant new export opportunities for U.S. pork.

People frequently talk about trying to achieve "a level playing field" through the WTO negotiations. The U.S. pork industry is already trying to operate on its own level playing field. The average U.S. import duty on pork is about one percent. We receive no domestic subsidies, and no export subsidies. Because we get no subsidies or import protection, we have to rely on the market to be profitable. That is precisely why the WTO negotiations are so important to us.

A Critical Period for the WTO Negotiations

U.S. negotiators deserve high praise for the work they have done thus far to advance the WTO negotiations. They were successful in ensuring that these negotiations will take place as a "single undertaking", under which all components of the negotiations, agriculture, non-agricultural market access, services, etc., are part of a single negotiating enterprise. This ensures that the more sensitive areas of the negotiations, and agriculture is without question the most sensitive, are not left behind in order to achieve agreements in other areas. In addition, U.S. negotiators have been successful in establishing a broad negotiating mandate in agriculture, covering market access, export subsidies and domestic support.

The WTO negotiations and the agricultural negotiations in particular, are now entering a critical phase. Negotiators have set the WTO Ministerial to be held in Hong Kong in December 2005 as the deadline for achieving agricultural "modalities", or specific formulas for reductions in tariffs, reductions in domestic support, and the elimination of export subsidies. Achieving a modalities agreement by the end of this year will in turn give countries the time they will need to finalize their specific WTO commitments with respect to agriculture in 2006. The need to finalize the WTO negotiations by the end of 2006 is in turn driven by the expiration of U.S. Trade Promotion Authority (TPA) in 2007.

In our view, the chances that the Hong Kong Ministerial will be successful have increased with the Administration's recent announcement that it is willing to not only make deep cuts, but eventually eliminate, trade distorting domestic support, in exchange for major improvements in market access from our trading partners. We fully support the Administration's bold move on domestic support. From recent statements made by WTO Director General Pascal Lamy and other objective observers, it is clear that the U.S. domestic support offer has put the focus of the negotiations where it rightfully belongs, on the refusal to this point of the EU, Japan and other high tariff countries to offer major improvements in market access.

It will take continued strong leadership from the United States, and a tireless effort on the part of U.S. negotiators, to steer the agricultural negotiations to a successful meeting in Hong Kong. Based on my comments to this point, it should be apparent to the Committee that success in this negotiation is of vital interest to the U.S. pork producers.

Zero-for-Zero Negotiating Objective for Pork in the WTO

As already noted, U.S. pork producers have been a major beneficiary of past trade agreements. However, our ability to reap further benefits is severely hampered by the continued existence of trade-distorting policies. Import barriers remain high in many important markets, and the EU continues to use subsidies to capture and maintain market share. The elimination of such unfair trade practices is essential to the future health of the U.S. pork industry.

U.S. pork producers have therefore proposed that the United States adopt as a primary negotiating objective in the WTO trade negotiations the total elimination, in the shortest possible time frame, of all tariffs, all export subsidies and all trade-distorting domestic subsidies for pork and pork products. The U.S. pork industry, in concert with U.S. trade negotiators, is working to gain support for this initiative among other WTO members. The United States should continue to use its negotiating leverage to push this objective with other WTO members, with the goal of ensuring we are afforded the best possible opportunity to take advantage of our natural competitiveness.

WTO NEGOTIATING OBJECTIVES FOR THE AGRICULTURE SECTOR

The U.S. pork industry does not view its zero-for-zero initiative in any way as a substitute for a comprehensive negotiation in agriculture. Fundamental liberalization in the pork industry can be most easily achieved in the context of an ambitious overall agreement. Therefore, NPPC's negotiating objectives for the agricultural sector as a whole are provided below.

Market Access

Tariff Reductions

Notwithstanding the progress made in the Uruguay Round, tariffs on agricultural products remain very high. As previously indicated, the average import duty for pork in other WTO countries is 77 percent, and the average import duty on all agricultural products is 62 percent. Meanwhile, the average U.S. agricultural import duty is 12 percent, and on pork, only 1 percent. The current inequities that the United States faces on import duties in the WTO can only be corrected through the use of a harmonizing formula that results in larger cuts on higher import duties.

NPPC has been an advocate of the Swiss formula, which would result in deeper reductions in higher tariffs based on the universal application of an arithmetic formula to all tariff lines. Current discussion in the WTO has moved in the direction of a "tiered" approach, under which different tariff ranges would be subject to different size reductions, with the highest ranges of tariffs subject to the highest cuts. NPPC fully supports the new U.S. proposal, issued on October 10, 2005, for deep cuts in high tariffs by developed countries. We believe that cuts of this magnitude will be needed to create significant improvements in market access. While recognizing the need for special and differential treatment, which I will address later in my testimony, we urge U.S. negotiators to seek cuts of similar magnitude for developing countries, other than those that are least developed.

The best example of the importance of tariff cuts to the U.S. pork industry is Japan. Japan is the largest market for U.S. pork exports. However, Japan imposes high duties on pork imports if they fall below a pre-established "gate price". The highest single market access priority of the U.S. pork industry in this trade round is obtaining a major reduction in the level of the gate price that Japan applies to pork imports, combined with a major reduction in the import duties which Japan applies on pork imports that are priced below the gate price. In addition, it is important that the special safeguard that Japan applies to pork imports be eliminated in this trade round. That safeguard creates substantial volatility in the Japanese market, and has in recent years acted as a serious obstacle to U.S. pork exports.

Sensitive Product Designation

The July 2004 "Framework Paper", developed by the Chairman of the WTO agricultural negotiations as a benchmark for future negotiations, allows for countries to designate an unspecified number of products as "sensitive". These products will be subject to more lenient treatment as far as tariff cutting requirements are concerned. Expansion of tariff rate quotas is mentioned as an alternative option for trade liberalization for these products. The number of products that can be designated as sensitive is subject to further negotiation. We expect many countries will want to make use of the "sensitive product" designation for pork. For this reason, we fully support the new U.S. proposal that the sensitive product designation should be limited to no more than one percent of tariff lines, and that compensation for the sensitive product designation should be required in the form of significantly expanded tariff rate quotas.

Tariff Caps

Another issue of importance in the market access negotiations is the question of whether tariffs should be "capped" at maximum levels, in cases where tariffs are currently so high that tariff cutting requirements do not yield commercially meaningful results. NPPC supports a tariff capping requirement. As already mentioned, the U.S. pork industry is forced to deal with excessively high tariffs in countries around the world. To provide one example, Norway has a WTO bound rate of 363 percent for pork. Tariff capping would be the most effective way of bringing such high tariffs down to more reasonable levels. For this reason, we fully support the October 10 U.S. proposal for a 75% tariff ceiling in developed countries.

Special and Differential Treatment

There is another market access issue that, in the view of the NPPC, is of critical importance to the success of the WTO agricultural negotiations. Under the July 2004 Framework Agreement, developing countries will be given "special and differential treatment" when it comes to market access liberalization requirements. This includes more lenient requirements for tariff reductions and tariff rate quota expansion, allowance of additional sensitive product designations, and allowance for the establishment of a special safeguard.

NPPC fully understands and supports the need for special and differential treatment for the poorest, least-developed countries. However, the application of special and differential treatment for all countries that meet the broad definition of a "developing country" could have a very detrimental effect on the agricultural market access negotiations.

For example, NPPC does not believe that Brazil, a middle-income country that has seen explosive growth in its pork exports in recent years, should be allowed to receive special treatment when it comes to market access liberalization for pork. Looking at the impact of this proposal on a regional basis, exemptions for special and differential treatment could have particularly negative impact on market access results in the Pacific Rim, where 56 percent of the growth in world population and 48 percent of world economic growth are expected to take place over the next five years. Allowing key countries in this and other regions of the world to take advantage of special and differential treatment could substantially diminish the trade liberalization impact of the Doha Development Agenda.

NPPC believes it is of critical importance that U.S. negotiators work in coming weeks to achieve objective criteria for special and differential treatment that will exclude countries that are competitive agricultural exporters, as well as middle income countries. In addition, objective economic criteria should be agreed on that will allow for the graduation of countries from developing country to developed country status. In our view, the recent U.S. offer on major domestic support reductions has made a U.S. request for such restrictions on the developing country designation extremely credible.

Tariff Rate Quota Expansion and Administration

The U.S. pork industry faces tariff rate quotas in many of its primary markets around the world. As mentioned earlier, under the existing Framework Agreement, if a country designates a product as "sensitive", it will be obliged to expand tariff rate quotas, or TRQs. Because of the prevalence of TRQs in agricultural trade, it is important that <u>all</u> existing TRQs, regardless of whether or not they are designated as “sensitive”, be substantially expanded through these trade negotiations.

By far the best example of the restrictive impact of TRQs on U.S. pork exports is the European Union. During the Uruguay Round, the EU established TRQs on pork that represented far less than 1 percent of domestic consumption. Measured as a percentage of domestic consumption, even developing countries like the Philippines did a far better job of offering TRQ opportunities in the Uruguay Round than the EU. Such limited access to the EU pork market is particularly frustrating for our industry, since the United States is one of the best markets that the EU has for its pork exports.

Unfortunately, in some cases, like that of the EU, the administration of TRQ’s has also been used as an instrument to thwart imports. These kinds of problems arise from the lack of clear, specific rules on import licensing and the administration of TRQs. In the WTO agriculture negotiations, rules on TRQ administration must be clearly delineated, in a manner that prevents import licensing from becoming a disguised restriction to trade.

In addition, the high in-quota rates on TRQs in the EU and other countries should be either sharply reduced or completely eliminated.

EU SPS Barriers

Of course, U.S. pork exporters face more than just TRQ restrictions in the European Union. The EU maintains onerous residue testing requirements, as well as other unneeded disease related testing requirements, that add significantly to the cost of exporting pork to the EU. Needlessly difficult and costly EU plant approval requirements pose yet another major obstacle to U.S. pork exports NPPC believes many EU SPS requirements operate in direct violation of the principle of “equivalence”, as that term is defined in the WTO SPS Agreement.

The EU has erected the most formidable set of SPS barriers to pork imports of any U.S. trading partner in the world. The vast majority of EU SPS regulations provide no additional protection to EU consumers. In fact, the EU has been unable to enforce its own SPS rules in some EU Member States. So, the EU’s daunting list of SPS requirements ultimately serves only one purpose - to restrict imports.

In 1985 the EU accounted for 20 percent of total U.S. pork exports. Today it accounts for less than one percent. Almost all of this decline can be attributed to unfair EU SPS barriers to trade. It is imperative that U.S. negotiators move quickly to address EU SPS issues in an aggressive and systematic way, in order to ensure that this trade round results in real trade liberalization in the EU.

Final Comments on Market Access in the EU

Before I leave the issue of market access I want to again underline the importance of major improvements in market access in the EU. If price competitiveness and product quality were the deciding factors in selling to the EU, Europe would be one of the largest markets in the world for U.S. pork exports. With the EU’s recent expansion, it now represents a market of over 400 million mostly high income consumers. However, U.S. pork sales to the huge EU market remain negligible, due to a combination of tight TRQ restrictions and completely indefensible SPS barriers.

It has always been difficult to respond to U.S. producers who ask why the U.S. offers an essentially open market to EU pork, while the EU market remains highly restricted for U.S. pork exports. The Doha Development Agenda offers the perfect opportunity to rectify this situation. The EU has challenged the U.S. to "step up to the plate" in the Doha Development Agenda, by offering major cuts in domestic support. The U.S. has done so, and in a big way. It is now time for the EU to reciprocate, by offering major improvements in market access for pork and other products, and by eliminating SPS barriers that serve only to restrict trade.

Export Subsidies and Other Forms of Export Competition

Export subsidies are universally recognized as being the most trade distorting of all government subsidy practices. Under WTO obligations established during the Uruguay Round, the EU can spend up to $175 million a year on export subsidies for pork. We commend the EU for its expression of willingness to eliminate agricultural export subsidies, including export subsidies for pork, as part of the current WTO negotiations. Prior to the Hong Kong Ministerial, the EU should take the additional step of committing to phase these subsidies out very quickly.

The EU says that its position with respect to export subsidies is contingent on action by other WTO members to discipline the use of agricultural export credits and food aid. For this reason, we fully support the current U.S. position that would accept new disciplines on the use of agricultural export credits. For the same reason, we would also accept the imposition of new disciplines on food aid, to the extent necessary to prevent such aid from distorting commercial markets in recipient countries.

Domestic Support

NPPC has always believed that for this trade round is to be successful, developed countries, including the U.S., would have to be willing to offer significant cuts in trade distorting domestic support. We have already mentioned the importance to the U.S. pork industry of gaining significant improvements in market access through this trade round. We are convinced that the recent expression of U.S. willingness to not only significantly reduce, but eventually eliminate, trade distorting domestic support will have a direct and highly positive impact on the new export opportunities that we obtain through these trade negotiations. The U.S. domestic support offer should elicit a change in position on market access in both developed and developing countries, with the latter group having established a clear link between their willingness to improve market access, and reduction of trade distorting support in developed countries. To repeat a point I made earlier - in our view, the recent bold movement by the U.S. on the issue of domestic support has put the focus of the trade negotiations where it really belongs, on the refusal to this point of the EU, Japan and other high tariff countries around the world to offer major improvements in market access.

Finally, to reiterate another earlier point, NPPC supports a zero-for-zero initiative on pork, under which all trade distorting subsidies for pork would be eliminated.

The U.S. Must be a Reliable Supplier of Agricultural Products

Trade liberalization is not a one-way street. If we expect food importing countries to open their markets to U.S. exports and rely more on world markets to provide the food they need, we should at the same time commit to being reliable suppliers. Current WTO rules permit exporting countries to tax exports whenever they choose (GATT Article XI.1), and to prohibit or otherwise restrict exports to relieve domestic shortages (GATT Articles XI.2(a) and XX(i) and (j)). These provisions should be eliminated in conjunction with the phasing out of import barriers. Such a move would not affect the ability of the United States to impose trade sanctions for reasons of national security; that right would be preserved under GATT Article XXI.